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RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
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RUCPDC/DEPT OF COMMERCE WASHDC
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RUEHJO/AMCONSUL JOHANNESBURG 6137
RUEHTN/AMCONSUL CAPE TOWN 3911
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UNCLAS SECTION 01 OF 03 PRETORIA 000415

SIPDIS

DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
USDOC FOR 4510/ITA/MAC/AME/OA/DIEMOND
TREASURY FOR OAISA/RALYEA/CUSHMAN
USTR FOR COLEMAN

SIPDIS

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [EINV](#) [ETRD](#) [EMIN](#) [EPET](#) [ENRG](#) [BEXP](#) [KTDB](#) [SENV](#)
PGOV, SF
SUBJECT: SOUTH AFRICA ECONOMIC NEWS WEEKLY NEWSLETTER FEBRUARY 02,
2007 ISSUE

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11. (U) Summary. This is Volume 7, issue 05 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:

- Drop in Producer Inflation
 - Slowdown in Credit Growth
 - Small Trade Surplus in December
 - IPR Awareness Promoted by SARS
 - Eight out of Ten Businesses Affected by Crime
 - Appeals Against Nuclear Fuel Plant Overruled
 - FCB Meets BEE Targets
 - Nissan to Spend R95m on Infrastructure
 - Plan to Bring Retail and Manufacturing into BEE Net
- End Summary.

Drop in Producer Inflation

12. (U) According to data released by Statistics South Africa (Stats SA) on January 26, South Africa's Producer Price Index (PPI) increased by 9.3% year-on-year (y/y) in December 2006 from a 10.0% y/y increase in November. Economists expected an increase of 10.3%. December's increase was due to annual increases in the price indices for locally produced commodities (+7.0 percentage points) and for imported commodities (+2.3 percentage points), Stats SA noted. Stats SA reported that PPI increased 7.7% in 2006, as compared to 3.1% in 2005. PPI increased 0.6% and 1.7% in 2004 and 2003 respectively. (Fin24, January 25)

Slowdown in Credit Growth

13. (U) Official South African Reserve Bank (SARB) data, released on January 29, showed that growth in demand for credit by the private sector slowed to 25.81% in the year to December from 26.77% in the year to November. During the same period, the broadly defined M3 measure of money supply grew by 21.93% from November's 25.33%. Based on this data, together with official figures showing a slowdown in consumer and producer inflation, many analysts now believe that interest rates will not be increased at February's Monetary Policy Committee (MPC) meeting. The MPC raised interest rates by 200 basis points in 2006 and will meet in February to

decide on the next move. SARB Governor Tito Mboweni had previously warned that debt levels were worrying. Faster economic growth in the economy has been driven largely by domestic demand, pushing household debt to a record 73% of disposable income. (Business Day, January 30)

Small Trade Surplus in December

14. (U) Data released by the South African Revenue Service (SARS) on January 31, showed a trade surplus of R388 million (\$55 million) in December compared with a deficit of R10.5 billion (\$1.5 billion) in November. A Reuters survey of economists had predicted a R2 billion deficit in December. Although a surplus is normally recorded in December, this was the smallest surplus on record, analysts said. According to SARS, imports of crude oil declined by R3.6 billion (\$0.5 billion) in December, while imports of machinery and electrical appliances were down R3.7 billion (\$0.52 billion), contributing to the overall 30% decline in imports. Exports fell by 11.6% compared to November. Analysts said the fall in exports and imports could largely be attributed to seasonal shutdowns during the holiday period, but the data was still better than expected. Infrastructure spending in the coming years is expected to keep demand for imports high. (Business Day, February 1)

IPR Awareness Promoted by SARS

15. (U) In honor of World Customs Day, SARS Deputy Chief Operations and Head of Customs, Leonard Radebe, has begun to push for Intellectual Property Right (IPR) awareness. On SABC News, Radebe explained the various types of IPR crimes, including the counterfeiting of goods ranging from Nike products to medicines. He described training programs provided for customs officials, including ethics training to counter corruption among border officials. He called for the public to play a role in halting IPR

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crimes by providing SARS with any feedback of possible counterfeit products. The news clip also included references to local IPR organization hotlines, and SARS hotlines for suspicious trading activity. Radebe also penned an article for Pretoria News outlining the seriousness of IPR crimes, their economic effect, as well as the effect of counterfeit trade on South Africa. (SABC3 January 26, Pretoria News January 26)

Eight out of Ten Businesses Affected by Crime

16. (U) According to Grant Thornton's 2007 International Business Report (IBR), 84% of medium-to-large privately held businesses in South Africa reported that they, their staff or families of staff have been personally affected by crime over the past 12 months. The 200 business surveyed have been affected by crimes such as housebreaking, hijacking, assault, road rage or similar offenses. Of those medium-to-large privately held businesses affected by crime, 88% reported having incurred increased costs for security, 65% report decreased productivity and motivation of staff and 41% report a decrease in creativity, ingenuity and resourcefulness of staff. Grant Thornton's National Chairperson, Leonard Brehm, said that business must be able to operate in a safe environment if South Africa is to meet its growth targets. "This can only be achieved through strong and sustained action by government and security agencies, supported by a culture of community participation in assisting with the detection and control of crime," he said. The statistics do not include the occurrence of white- and blue-collar crime within businesses. (I-net Bridge, January 31)

Appeals Against Nuclear Fuel Plant Overruled

17. (U) The Minister of Environmental Affairs and Tourism (DEAT), Marthinus van Schalkwyk, dismissed appeals against the establishment of a Pilot nuclear-Fuel Plant (PFP) in Pelindaba outside Pretoria. After considering the diverse appeals from various interested groups, Van Schalkwyk granted authorization to the state-run South

African Nuclear Energy Fund (SANEF) to develop the PFP. According to The Record of Decisions (ROD), the formal response document to the public, the approval was granted on the grounds that the negative environmental impacts associated with project can be mitigated, on condition of compliance with the law. The other reasons given were that there has been sufficient public participation in the process, and that no fatal flaws were identified during the Environmental Impact Assessment (EIA). Meanwhile the opponents of the Minister's decision argue that it may have been prompted by the widespread blackouts which occurred in South Africa the week before. (Business Day, January 30)

FCB Meets BEE Targets

18. (U) THE world's third largest advertising agency, U.S.-listed Interpublic Group (IPG), has taken a novel approach to Black Economic Empowerment (BEE) by agreeing to give 24% of its 74% shareholding in its South African arm, FCB SA, to local staff for free. The deal was struck to allow FCB SA to meet BEE targets. FCB SA is the fifth-largest revenue generator in IPG's global business, which spans 130 countries and reported revenue of R290 million (\$41 million) in 2006, which according to some experts keeps it level with Ogilvy as the two largest advertising agencies in SA. FCB SA's Chief Executive Officer (CEO) Neil van der Weele said that the deal under which IPG would "lend" its 24% of FCB SA to staff was only reached after "tough negotiations" in the US. Effectively, this increases FCB's black ownership level from 25% to 35%. Van der Weele said FCB SA's board will also now have the same number of black and white directors. By making this concession, IPG is giving up its dividend stream from SA, and the new shareholders will get immediate right to dividends, as well as voting rights. However, in 10 years IPG has the right to take back the shares it is now "lending" to the staff trust. The Association for Communication and Advertising was reported in the Financial Mail in December as saying that even though 76% of advertising agencies had more than 26% black ownership, nearly two-thirds of their staff was white. (Business Day, January 24)

Nissan to Spend R95m on Infrastructure

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19. (U) Nissan Diesel and its dealer network are to spend R89-million (\$12.5 million) on new infrastructure developments across South Africa, the truck manufacturer has announced. An additional R6 million (R0.8 million) will be invested in the training of much-needed technical apprentices and sales personnel. Dealer infrastructure investment amounted to R34 million (\$4.8 million) in 2006. Executive Vice-President of Nissan Diesel South Africa, Frans Cloete, said, "Trucking forms an integral part of the South African economy and it is of great importance to ensure that the wheels of industry and business continue to rotate effectively and productively." Nissan Diesel SA wants to increase its market share to around 13%, in an industry that is expected to sell up to 38,000 units in 2007. (I-Net Bridge, January 22)

Bring Retail and Manufacturing into BEE Net

10. (U) The Department of Trade and Industry (DTI) is undertaking a review of South Africa's black empowerment legislation to ensure that sectors such as retail or export manufacturing, which have little reason to empower themselves under current legislation, are brought into the empowerment net. Polo Redebe, DTI's Chief Director for Black Economic Empowerment (BEE), explained to parliament that current BEE legislation relies on voluntary economic incentives such as eligibility for government tenders or licenses. However, large sections of the economy are impervious to these incentives, with the result that some of the biggest beneficiaries of economic growth are not required to do anything about empowerment. (Business Day, February 1)

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